

# **Plaintiffs' Exhibit 105**

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# **Project Liberty Revisited**

*EMG Deal Review*

**Dated: 5/19/2007**

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## Situation Overview

- Liberty's investors (Hellman Friedman) was preparing to IPO the company when they (supposedly) received a verbal offer (we hear MSFT)
- Now shopping the company to Google, maybe others
- We met with Liberty management in NYC on Thurs
- Current verbal offer is at least \$2B, according to their bankers
- Our bankers think IPO value is \$1.6-1.9B; lower once the market is aware of GFA/GFP
- Hellman Friedman wants offers by end of this week

- **Summary points:**

- **GFA has little chance to succeed if MS buys Liberty, impairing our chance to build a display ad business (unless we accept 3P ad tags)**
- **Liberty's publisher ad server would enable MSFT to quickly scale its ad network, intensifying competition for AFC**

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Publisher Side	Advertiser Side
<b>DART for Publishers</b> <ul style="list-style-type: none"><li>• Footprint: 9 of Top 10 US &amp; 8 of Top 10 European sites (60% share)</li><li>• 7B impressions/day; 75% US/25% Int'l</li><li>• Dart Adapt inventory optimization package. Increases eCPM for publisher 40% on average.</li><li>• Sales Manager: RFP &amp; I/O workflow tools</li><li>• Motif: Rich media solution for publishers</li><li>• AOL: runs ad sales &amp; operations on customized DFP platform</li></ul>	<b>DART for Advertisers</b> <ul style="list-style-type: none"><li>• Footprint: contracts with 9 of Top 10 global agencies (~50% share)</li><li>• Impressions: 3B impressions/day; 75% US/25% Int'l</li><li>• Rich Media: #2 rich media vendor (Motif+Klipmart+TangoZebra)</li><li>• MediaVisor: integrated media planning tool</li><li>• Vision: same as CMO Dashboard</li></ul>
<b>DART Enterprise</b> <ul style="list-style-type: none"><li>• Enterprise software version of DFP for large web publishers</li><li>• 7B daily impressions</li></ul>	<b>DART Search</b> <ul style="list-style-type: none"><li>• Cross-network bid optimization, campaign and keyword management</li></ul>
<b>Ad Exchange</b> <ul style="list-style-type: none"><li>• Ad Exchange is a dynamic marketplace that matches publisher inventory to the highest paying buyer (similar to Right Media)</li></ul>	<b>Performics</b> <ul style="list-style-type: none"><li>• Service platform -- Largest US SEO</li><li>• Paid placement, natural search optimization and data feed optimization services</li></ul>
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### Changes at Liberty since buyout

- 1,200 employees in 17 countries (tripled since mid '05)
  - 375 eng (275 in NYC and Chicago + 100 contractors in India)
  - 200 sales
  - 350 customer service/support
  - 275 G&A
- Divested non-core assets
  - Email (\$90mn)
  - Abacus separated and then sold (\$435mn)
  - Marketing automation (price n/a)
- Made three acquisitions
  - Falk: #2 publisher ad server in Europe
  - Klipmart: top 2 video ad server
  - TangoZebra: top European rich media ad server
- Investment in core platform and key adjacencies
  - Became the second largest player for rich media and video (Motif, Klipmart and Tangozebra)
  - Launched DART Search, combined with Performics (\$1 billion under management)
  - Building an ad exchange seamlessly integrated with DART (similar to Right Media)
  - Built and launched DART Sales Manager

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## What if MSFT acquires Liberty?

### **The MSFT/Y! Perspective**

- Need access to DFP's "available" inventory to build ad network
- Assume they'll make the ad server free to access remnant inventory
- 2-4B daily ad slots could become available to MSN (vs. 7B AFC ad slots today)
- **KEY QUESTION: Why is inventory available? Why hasn't Liberty attempted to monetize?**
- **RISK: MSN will become more competitive with AFC by scaling their network**

### **Implications for Google**

- Acquisition by MSFT will make it challenging for GFA and GFP to get traction
  - DFA/DFP will likely be made free and improved (similar to our strategy)
  - Reduces incentive for current customers to switch to GFP/GAM
- Lowers incentive for agencies to push MSN/Y! to accept GFA ad tags
- **RISK: GFP/GAM market traction significantly impaired**

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## Strategic Rationale

### **DFA: Agency Ad Server ("Buyside")**

- Improves brand ad business: **support 3P ad tags** and create **more visibility for AFC** publishers/inventory via planning tools
  - DFA has ~50% share of 3PA serving (slightly higher than Atlas)
- Buying a large footprint **reduces execution risks** for organic efforts (GFA)
  - Reduces barriers to adoption for advertiser/agencies
  - Lowers risk that Y! and/or MSN don't accept our tags

### **DFP: Publisher Ad Server ("Sellside")**

- Access to potential **2B incremental AFC impressions** per day
- Buying a large footprint **reduces execution risks** for organic efforts (GFP)
  - DFP has 60% share of publisher ad serving market
  - Reduces barriers to adoption for publishers
- **Deepen relationship with AOL**; DFP deeply integrated with properties and sales org

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## Valuation

- **\$2B+ competitive offer**
- Expect MSFT to bid aggressively
- We value financial benefits at **\$1.5-2.2B NPV**
  - **\$900M-1.4B NPV**: Improvements to brand ad business via DFA
  - **\$1.5-2.2B NPV**: Access to incremental AFC inventory via DFP
  - **Negative \$900M-1.4B NPV**: Supporting Liberty operations
    - Free ad serving after two years
    - Reduce headcount to 800 from 1200
- Strategic value of eliminating a key risk to AFC

- **RECOMMENDATION**: Aggressively pursue acquisition. How high are we willing to go?

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## Liberty Operational Model

### Organizational Structure

- Liberty separate operating & legal entity. No Googlification.
- David R & other senior managers run existing business to rev and margin goals
- Down size Liberty as GFA/GFP take over footprint→ move to Google product in 2 years
- Single sales team

### Ownership

	GFA	GFP	Dart Search	Existing Liberty Business
Google Lead	Alex	Gokul	Richard	David R (reports to Tim)
Objective	<ul style="list-style-type: none"> <li>• Take best Liberty engineers and make Google employees</li> <li>• Migrate customer base to GFA over 2 yrs</li> </ul>	<ul style="list-style-type: none"> <li>• Take best Liberty engineers and make Google employees</li> <li>• Migrate customer base to GFP over 2 yrs</li> </ul>	<ul style="list-style-type: none"> <li>• Take best Liberty engineers and make Google employees</li> <li>• Migrate product to Google product</li> </ul>	<ul style="list-style-type: none"> <li>• Keep existing eng resources that don't get hired by GFA/P teams</li> <li>• Maintain customer satisfaction</li> </ul>

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## Open Operating/Integration Issues

- Management and incentives
- DFA/P vs GFA/P product development and migration plans
- Employee layoffs
- Product pricing
- Liberty vs Google Branding
- Sell Performics. Owning them creates conflicts (SEO, x-network campaign management)

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